

## Analysis of the Effect of Budget Participation on Budgetary Slack: Study Literature Review

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### ABSTRACT

The purpose of this study is to examine how budget participation affects budgetary slack. Using data sources from Mendeley, Publish or Perish 8, and Google Scholar indexed by Sinta 1-6, Google Scholar, Garuda, or EBSCO and Index Copernicus, as well as credible international journals indexed by Scopus throughout a five-year period beginning in 2019–2024, this study employs the System Literature Review approach. The search terms "behavioral aspects," "budget participation," and "budgetary slack" were used to find articles. The study's findings indicate that there is more room for budgetary slack the more people participate in budgeting. Decision-makers have the power to choose the budget's contents when they participate in the budgeting process. However, due to disagreements over ideas or conflicts of interest, including a large number of people in the budget preparation process may increase the likelihood of budget shortages. When it comes to budget participation, everyone has a tendency to search for methods to help the budget targets achieve their goals. In the end, this leads to the practice of raising expenses or lowering them to the appropriate level so that the budget may be met more readily.

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## **INTRODUCTION**

A budget is a plan that is prepared systematically to cover all company activities in financial form over a certain period of time (Pitaloka & Trisnaningsih, 2022) . The budget is a key element of a strategy that includes various financial plans for the future, which includes the goals and steps required to achieve each organizational goal (Agustina & Suhaidar, 2021) . Budgets serve as a tool to control costs and highlight problem areas in an organization through periodic evaluation of budgeted performance. To ensure that the budget is achieved according to its objectives, cooperation between employees and managers is needed in the budget preparation process. Because this process can be very complex, there is the possibility of both positive and negative impacts on the behavior of organizational members.

Budget management requires participation from all members of the organization, including management and leadership, because they are responsible for setting and designing budget objectives. Their participation in this process also helps work unit leaders determine the contents of the budget. This advantage allows participants to abuse their authority to help achieve the budget, which can ultimately be detrimental to the organization (Precilia & Mimba, 2020) . According to Agustina & Suhaidar (2021), although budget participation usually has a beneficial impact on budget preparation, it also has negative consequences. One weakness is the potential tendency and opportunity to deliberately introduce budget slack for personal gain. Therefore, participation in budget preparation can lead to budget discrepancies.

The budgetary slack, the difference between the planned budget and the predicted budget that can actually be achieved, occurs when managers project lower revenues and greater costs than predetermined expectations. The goal is to make budget targets more manageable so that management performance can be evaluated more accurately (Handoyo et al., 2022) . Budgetary slack occur in budget participation due to the large contribution of managers in the budgeting process. Managers who participate in budgeting provide biased information to directors to facilitate their own targets, even though they have information that can help the accuracy of the company's budget (Ardianti et al., 2021) .

Previous research examining the relationship between budget participation and budgetary slack showed inconsistent results. Research conducted by Agustina & Suhaidar (2021), Christina & Akbar (2019), Handoyo et al., (2022), Jati & Widhiyani (2020), Precilia & Mimba (2020), Renggadewi (2020), Sulistyawati et al. (2023) and Tyas et al. (2022) shows that budget participation has a positive influence on the budgetary slack, where the higher the budget participation in preparing the budget, the higher the opportunity or opportunity to make budgetary slack. Different things were shown by research by Ardianti et al. (2021) and Okoye & Nwamaka, (2022) which show that budget participation results have a negative influence on the budgetary slack. According to them, budget participation will reduce budgetary slack.

From the preliminary description that has been explained, researchers are interested in conducting literature study research related to analyzing the effect of budget-participation on budgetary slack.

## LITERATURE REVIEW

### *Budget*

Management designs and sets goals and objectives that are included in the company's vision and mission when carrying out business activities. The budget describes the efforts made to achieve the company's goals and objectives, namely making plans for operational activities in monetary units. A budget is a management tool that helps achieve company goals and provides clear direction for daily operations. A business must set a budget to provide the resources necessary to achieve its goals of increasing market share, increasing profits, and improving the perception of its customers. (Siegel & Marconi-Ramanauskas, 1989: 121) . According to Romauli et al. (2019) A budget is an organizational planning document that describes numerically or in the form of figures the organization's action plan for a certain period of time. Although generally prepared in currency, budgets can also be expressed in units of goods or services.

According to Yuesti (2017) there are several functions of the budget which are explained as follows:

- a) The budget is the final result of the company's planning process created by the dominant members of the organization and shows organizational agreement regarding future operational *goals* .
- b) A budget is a company planning strategy that establishes management priorities in resource allocation and how each unit within the company works to achieve the company's overall goals.
- c) As an internal communication tool that connects top management and various departments or divisions of the organization with each other.
- d) Budgets can be used as a standard reference for actual operating results .
- e) Helps management identify the company's strengths and weaknesses.
- f) Budgets seek to encourage managers and employees to act in accordance with organizational goals and effective and efficient operations.
- g) Budgets have become an accepted tool in management to plan and monitor company operations. Most business and non-profit organizations set budgets with varying degrees of complexity and efficacy.

### *Budget Participation*

Participation in the budgeting process in both government and business contexts is an important factor that has a significant impact on the efficiency and effectiveness of budget management. This participation is considered a means of building trust, control, and individual contribution within the organization. This can have an impact on the level of commitment to budget targets, as well as the intensity of changes that can occur in its implementation (Pitaloka & Trisnaningsih, 2022) . Participation in the budgeting process involves active involvement from both subordinates and superiors in setting budget targets. The choice between participatory and non-participatory models in budgeting is part of top management's strategy to overcome the problem of goal alignment (Makhfudloh et al., 2018) . According to Afif & Andayani (2021) participation in budget preparation is an organizational process in which

individuals are involved in designing the budget, either annually or periodically, which involves direct or indirect participation of people who can influence the budget preparation process. This process also includes the use of employee performance which can have an impact on achieving organizational goals.

### ***Budgetary Slack***

Budgetary slack are discrepancies in estimated revenues and allocated costs that are deliberately included in the budget to enable middle and lower level managers to achieve budget targets more easily (Sulistyawati et al., 2023) . According to Handoyo et al., (2022) Managers generate budgetary slack when they predict lower income and greater costs than predetermined expectations. This is the discrepancy between the estimated budget that can be attained and the budget that has been prepared. The goal is to make meeting financial goals simpler so that managers' performance can be evaluated more accurately.

A budgetary slack is the difference between the stated budget and the best estimate honestly predicted and occurs because managers set lower revenues and higher costs than the organization should expect to target. (Said et al., 2023) . Budgetary slack is a habit often carried out by organizational managers when involved in the budget planning process by misleading income estimates or increasing expenditure allocations. This is done because budgets are often used as a standard for evaluating managerial performance, so that to make it easier to achieve their targets, managers tend to create budgetary slack (Jati & Widhiyani, 2020) .

## **RESEARCH METHODS**

*System Literature Review* research method or systematic literature review to obtain a comprehensive review through the sources that have been collected. A literature review's objective is to critically assess the body of existing research in a certain study field, theme, or discipline. It does this by identifying pertinent theories, key constructs, empirical methodologies, context, and remaining researchgaps. (Paul & Criado, 2020) . In this research, documentation study techniques are used to collect data or samples. This technique analyzes the problem to be researched and then links it to the data or documents used as sources or references. The results of this problem analysis are compared with relevant data or documents. (Wahidaty, 2021) . The data sources used are journal articles collected via *Mendeley, Publish or Perish 8* and *Google Scholar* using the keywords "Behavioral Aspects, Budget Participation and Budgetary slack". The journal articles that will be taken as samples are journal articles published over a period of 5 years from 2019 to 2024 with the journal indexes Sinta, Garuda, Google Scholar, EBSCO, Index Copernicus and the international journal Scopus. Based on the search that had been carried out, 10 journal articles were found that were relevant to the topic to be discussed to be used as samples.

To obtain effective research results, the research questions used to carry out this analysis are:

RQ 1: How does budget participation affect budget slack?

## RESULTS AND DISCUSSION

**Table 1. Results of Journal Articles**

No	Journal Article Title	Author, Year	Publisher
1	<i>"Organizational Commitment and Culture of Tri Hita Karana Moderating the Effect of Budget Participation in Budgetary Slack"</i>	(Renggadewi, 2020)	<i>Research Journal of Finance and Accounting</i>
2	<i>"Organizational Commitment and Love of Money: The Impact of Budget Participation on Budget Slack"</i>	(Okoye & Nwamaka, 2022)	<i>Journal of Global Economy, Business and Finance</i>
3	<i>"The influence of budget participation on budgetary slack with organizational commitment as a moderator variable (A study on performance sustainability of SOES Bandung)"</i>	(Christina & Akbar, 2019)	<i>Journal of Advanced Research in Dynamical and Control Systems</i>
4	<i>"Budget Participation, Information Asymmetry, And Job Insecurity As A Predictor Of Budgetary Slack"</i>	(Tyas et al., 2022)	<i>International Journal of Research in Business and Social Science</i>
5	<i>"Can Organizational Commitment, Locus of Control, and Ethical Considerations Moderate the Relationship Between Budget Participation and Budgetary Slack?"</i>	(Handoyo et al., 2022)	<i>International Journal of Economics, Business and Management Research</i>
6	<i>"Pengaruh Budgetary Slack Terhadap Budget Participation dengan Dimoderasi Information Asymetry dan Budget Emphasis"</i>	(Sulistyawati et al., 2023)	Owner: Riset & Jurnal Akuntansi
7	<i>"The Effect of Budget Participation and Organizational Commitment on Budgetary Slack"</i>	(Agustina & Suhaidar, 2021)	<i>Indonesian Journal of Social Science Research</i>
8	<i>"Self Efficacy, Partisipasi Anggaran, Asimetri Informasi, Emosional Stability dan Penekanan Anggaran terhadap Senjangan Anggaran"</i>	(Ardianti et al., 2021)	E-Jurnal Akuntansi
9	<i>"Pengaruh Partisipasi Anggaran, Kejelasan Sasaran Anggaran dan Kohesivitas Kelompok terhadap Senjangan Anggaran"</i>	(Precilia & Mimba, 2020)	E-Jurnal Akuntansi

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10	<p>“Money Ethics Moderation, Organizational Commitment and Organization Ethical Culture on the Effect of Budget Participation on Budgetary Slack”</p>	<p>(Jati &amp; Widhiyani, 2020)</p>	<p><i>Russian Journal of Agricultural and Socio-Economic Sciences</i></p>
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Source: Processed Data (2024)

Participation in budget preparation is a process in organizations where individuals are involved in making budgets, both on an annual scale and for certain periods. This participation involves people directly or indirectly who can influence the budget preparation process and ultimately organizational performance, whether organizational goals are achieved or not. In the process of making a budget, a budgetary slack often occurs which is called *budgetary slack*. One of the main causes of this gap is the use of participatory budgeting. In budget participation, each individual involved in the budgeting process tends to look for ways to facilitate the achievement of the budget targets that have been set. This often leads to the practice of increasing costs or reducing income from the proper level so that the budget is more easily achieved (Renggadewi, 2020). Budgetary slack is positively impacted by budget participation activities, according to research by (Tyas et al., 2022). She states that in order to keep employees' optimistic outlook, budgetary slack can be reduced by lowering budget involvement from firm management, eliminating job instability, and increasing oversight to lessen information asymmetry. According to research by Sulistyawati et al. (2023), Budgetary slack is positively impacted by budget participation, meaning that the more budget participation that is done, the more opportunities there are to take advantage of budgetary slack.

Renggadewi (2020) has demonstrated through additional study that budget participation positively impacts budgetary slack. Budget takers have the power and chance to choose what goes in their budget when they participate in budgeting. However, budget performance will evaluate performance, enabling authorities to act inefficiently by altering data and performance metrics. They do this on purpose in order to obtain the most accurate information available that suits their needs and advances their objectives. Participation in the budget process can lead to a greater likelihood of budgetary slack because a larger number of participants will result in a greater diversity of opinions or personal interests, which will increase rather than decrease the likelihood of budgetary slack. This can occur when people act in the organization's best interests to free up funds so that the business can benefit external partners. (Christina & Akbar, 2019).

Research by Handoyo et al. (2022) argues that employees must actively participate in the budgeting process and use their innovative thinking. However, this may lead to financial slack issues because the budget will serve as a performance standard. Although many employees don't meet their budgetary objectives, the degree of employee participation in budget development may boost the chances of success. Employee participation in the budget planning process may result in higher costs and lower projected revenues in the budget, all in the name of facilitating the achievement of those objectives.

In another study conducted by Okoye & Nwamaka (2022) presented different results. The research results show that budget participation has a negative impact on budget slack. This suggests that involving individuals in the budget planning process can reveal useful personal information. This information can be used to improve budget accuracy, which in turn can reduce budgetary slack. Therefore, involving employees in the budget planning process can effectively reduce budgetary slack, demonstrating the importance of employee contribution and involvement in the process. In line with this research, research conducted by Ardianti et al. (2021) also shows the same results. The majority of participation in budgeting occurs among middle level managers who have great responsibility and emphasize the importance of their participation in the planning process and setting budget targets. Every individual involved in budget preparation, including managers and employees, will increase their understanding and awareness of the goals and targets to be achieved. With good and transparent information exchange, participation is considered effective in reducing budgetary slack through establishing positive communication patterns.

## **CONCLUSION**

The explanation above's findings lead to the conclusion that there is more room for financial slack the more people participate in budgeting. Decision-makers have the power to choose the budget's contents when they participate in the budgeting process. However, due to disagreements over ideas or conflicts with personal interests, including a large number of people in the budget development process might raise the danger of budgetary slack. When it comes to budget participation, everyone has a tendency to search for methods to help the budget targets reach their goals. This frequently leads to the practice of raising expenses or lowering earnings from reasonable levels, which facilitates the achievement of budgets.

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